

Naval Audit Service



Audit Report



Marine Corps Equipment Accountability at II Marine Expeditionary Force

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N2011-0021
16 February 2011

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MEMORANDUM FOR THE COMMANDANT OF THE MARINE CORPS

**Subj: MARINE CORPS EQUIPMENT ACCOUNTABILITY AT II MARINE
EXPEDITIONARY FORCE (AUDIT REPORT N2011-0021)**

Ref: (a) NAVAUDSVC memo 7510, dated 30 November 2010
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

1. This report provides results of the subject audit announced in reference (a). Section A of this report provides our finds and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendix.
2. Actions planned by the Commandant of the Marine Corps meet the intent of the recommendations. Recommendations 1, 2, and 3 are considered open pending completion of the planned corrective actions and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion dates.
3. Please provide all correspondence to the Assistant Auditor General for Installations and Environment Audits, XXXXXXXXXXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.
4. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b).

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Subj: **MARINE CORPS EQUIPMENT ACCOUNTABILITY AT II MARINE
EXPEDITIONARY FORCE (AUDIT REPORT N2011-0021)**

5. We appreciate the cooperation and courtesies extended to our auditors.



XXXXXXXXXXXXXXXXX
Assistant Auditor General
Installations and Environment Audits

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Executive Summary

Overview

In Fiscal Years 2005, 2006, and 2008, the Inspector General of the Marine Corps conducted three Iraq equipment readiness assessments. During these assessments, the Inspector General of the Marine Corps found, among other things, that most of the units visited had supply accounting records that did not match on-hand quantities. The Inspector General of the Marine Corps report stated that this trend was systemic throughout the Marine Corps. It also stated that disparities in unit recordkeeping showed non-compliance with proper supply accounting procedures and Marine Corps orders and directives.

On 16 May 2008, the Commandant of the Marine Corps issued White Letter Number 03-08, which addressed equipment accountability. In the letter, the Commandant noted that, based upon reports by the Inspector General of the Marine Corps, equipment accountability must be improved to ensure that the Marine Corps can effectively meet ongoing and future mission requirements. The letter also noted that accurate equipment accountability ensures accurate readiness reporting, successful justification of resource requests to Congress, and a continued ability to provide well-equipped forces to answer the nation's call. Additionally, the letter stated that equipment accountability is a war-fighting and readiness issue and must be a priority.

The Naval Audit Service has also identified problems with recordkeeping for Marine Corps equipment. As reported in Naval Audit Service Report N2010-0028, "Marine Corps Equipment Visibility" (20 May 2010), we pulled a sample of inventory from 6 selected Marine Corps units and compared their Supported Activities Supply System records to on-hand counts. We found accuracy rates ranged from 54 percent to 80 percent for assets we sampled. According to DoD Instruction 5000.64, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," a minimum 98 percent physical inventory accuracy rate shall be achieved and maintained.

We conducted our audit between 23 November 2009 and 30 November 2010. The audit focused on unit equipment accountable records as of May 2010.

Reason for Audit

The audit objective was to verify that Marine Corps equipment was being efficiently and effectively managed, and ensure that units in the field were accurately accounting for the equipment they have been assigned. This audit was initiated by the Auditor General of the Navy.

Conclusions

We determined that recordkeeping for equipment assigned to II Marine Expeditionary Force units needs improvement. We obtained a listing of 135 critical Table of Materiel Control Numbers from the Deputy Commandant of the Marine Corps, Installations and Logistics. We reviewed the inventory accuracy for 13 of those Table of Materiel Control Numbers at 24 II Marine Expeditionary Force units. By comparing on-hand counts to inventory records (Consolidated Memorandum Receipts, Mechanized Allowance Listings, and Supported Activities Supply System), we determined that the units did not always meet the Marine Corps Inspector General's goal of 100 percent inventory accuracy for Marine Corps Automated Readiness Evaluation System reportable and Stores Account Code 3 items. Additionally, unit results did not meet the Department of Defense requirement of a minimum 98 percent physical inventory accuracy for all assets. Instead, we found accurate records were not maintained for 43 (or 6 percent) of 711 assets assigned to the 24 units we reviewed. These 43 errors occurred at 9 (38 percent) of the 24 units visited. All of the Table of Materiel Control Numbers we reviewed were Stores Account Code 3 items, and five were also reportable in the Marine Corps Automated Readiness Evaluation System.

We believe this occurred because unit personnel were not held accountable for data inaccuracies and did not update accountable records in a timely manner. It also occurred because Marine Corps guidance did not address the timeliness of Mechanized Allowance Listing or Consolidated Memorandum Receipt updates, and there was no oversight of unit inventory reviews. As a result, we determined that the II Marine Expeditionary Force unit records were inaccurate by an absolute value of \$896,050. Unit record inaccuracies for on-hand balances could potentially affect unit readiness and redistribution efforts. Additionally, inaccurate records impede the commanding officer's ability to be combat ready and guard against critical shortages and unauthorized excesses.

Communication with Management

Throughout the audit, we kept the Marine Corps informed of the conditions noted. Specifically, we met with and provided our preliminary results to II Marine Expeditionary Force personnel, including the Assistant Chief of Staff (Logistics), the

Supply Officer, and the Material Readiness Officer on 25 May 2010. We also provided the II Marine Expeditionary Force Supply Officer with more detailed results on 10 June 2010.

Additionally, we briefed our results to the Deputy Logistics, Policy and Capability at Headquarters Marine Corps on 21 July 2010.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify the effectiveness of the agency's internal and accounting system controls. In our opinion, the weaknesses noted in this report do not warrant reporting in the Auditor General's annual Federal Managers' Financial Integrity Act memorandum identifying management control weaknesses to the Secretary of the Navy.

Corrective Actions

We recommend that the Commandant of the Marine Corps:

- Require supply officers to conduct periodic spot inventory reviews of on-hand equipment maintained by their responsible officers in order to verify the accuracy of unit records.
- Update guidance to establish time requirements for updating Mechanized Allowance Lists and Consolidated Memorandum Receipts.
- Require the Commanding General, II Marine Expeditionary Force (or their Major Subordinate Commands) to obtain, track, and trend the results of periodic inventories performed by the units and use this data to monitor and improve unit equipment accountability.

Actions planned by the Commandant of the Marine Corps meet the intent of the recommendations, which are considered open pending completion of the planned corrective actions.

Section A:

Finding, Recommendations, and Corrective Actions

Finding: Recordkeeping Accuracy

Synopsis

Recordkeeping for equipment assigned to II Marine Expeditionary Force units needs improvement. We obtained a listing of 135 critical Table of Materiel Control Numbers from the Deputy Commandant of the Marine Corps, Installations and Logistics, hereafter referred to as Installations and Logistics. We reviewed the inventory accuracy of 13 of those Table of Materiel Control Numbers at 24 units. By comparing on-hand counts to inventory records, we determined that the units did not always meet the Marine Corps Inspector General's goal of 100 percent inventory accuracy for Marine Corps Automated Readiness Evaluation System reportable and Stores Account Code 3 items. Additionally, unit results did not meet the Department of Defense requirement of a minimum 98 percent physical inventory accuracy for all assets. Instead, we found accurate records were not maintained for 43 (or 6 percent) of 711 assets assigned to the 24 units we reviewed. These 43 errors occurred at 9 (or 38 percent) of the 24 units visited. All of the Table of Materiel Control Numbers we reviewed were Stores Account Code 3 items, and five were reportable in the Marine Corps Automated Readiness Evaluation System.

We believe this occurred because unit personnel were not held accountable for data inaccuracies and did not update accountable records in a timely manner. It also occurred because Marine Corps guidance did not address the timeliness of Mechanized Allowance Listing or Consolidated Memorandum Receipt updates. Further, there was no oversight of unit inventory reviews. As a result, we determined that the II Marine Expeditionary Force unit records were inaccurate by an absolute value of \$896,050. Unit record inaccuracies for on-hand balances could potentially affect unit readiness and redistribution efforts. Additionally, inaccurate records impede the commanding officer's ability to be combat ready and guard against critical shortages and unauthorized excesses.

We conducted this review after the Commanding General of II Marine Expeditionary Force directed his units to conduct a 60-day stand-down to perform a wall-to-wall inventory and reconciliation with equipment records. Therefore, in our opinion, the existence of any inaccuracies merits us reporting this issue to the Marine Corps.

Discussion of Details

Background

Sustained combat operations and high operational tempo have resulted in a significant decline of equipment accountability and readiness throughout the Marine Corps. The Commandant of the Marine Corps has directed commanders at every level to make the issue a priority.

The Commandant of the Marine Corps illustrated the importance of equipment record accuracy in White Letter Number 03-08, dated 16 May 2008. In the letter, the Commandant stated that, based upon recent reports by the Inspector General, equipment accountability must be improved to ensure that the Marine Corps effectively meets ongoing and future mission requirements. The letter also noted that equipment accountability ensures accurate readiness reporting, successful justification of resource requests to Congress, and continued ability to provide well-equipped forces. Additionally, the letter stated that equipment accountability is a war-fighting and readiness issue and must be a priority.

In February 2010, the Commanding General, II Marine Expeditionary Force directed his units to conduct a 60-day stand-down to perform a wall-to-wall inventory and reconciliation with equipment records. The completion date for that effort was 30 April 2010. Due to the stand-down, the Marine Corps requested that we delay our site visit to II Marine Expeditionary Force units until after the effort was completed. We were told by II Marine Expeditionary Force personnel that the results of our audit would be more helpful if we found discrepancies in unit equipment records after the wall-to-wall was conducted because it would validate the efficiency or inefficiency in the review process.

For additional background information, see Exhibit A.

Pertinent Guidance

According to User's Manual 4400.124, "Fleet Marine Force Supported Activities Supply System Using Unit Procedures" (April 1984), the Supported Activities Supply System functions as a centralized record keeper, stock manager, and forecaster. It also serves as a central bank or information point for the using units, without negating command responsibility. The Supported Activities Supply System is oriented toward removing supply accounting functions from the using unit, and provides management reports to aid the unit commander in maintaining surveillance over the material readiness of the command. Computer-produced documentation is provided to facilitate the receiving and issuing of and accounting for materiel. The same order also states that the unit supply

officer is responsible for reconciling Consolidated Memorandum Receipt on-hand balances and serial numbers for each responsible unit on a quarterly basis.

Marine Corps Order P4400.150E, “Consumer Level Supply Policy Manual” (21 June 1999), defines accountability and responsibility for the supply function. It states that accountability is concerned primarily with records, while responsibility is concerned primarily with custody, care, and safekeeping. Responsibility is defined as the obligation for the proper custody, care, and safekeeping of property or funds entrusted to the possession or supervision of an individual. The same order also states that consumer-level supply accounts are not authorized to retain excess materiel. Further, quantities of items on hand or on order greater than authorized levels must be redistributed, returned, disposed of, or canceled.

According to Marine Corps Inspector General personnel, the Marine Corps’ goal for inventory accuracy is 100 percent for the items reportable in the Marine Corps Automated Readiness Evaluation System, 100 percent for Stores Account Code 3 items, and 97 percent for Stores Account Code 1 items.

DoD Instruction 5000.64, “Accountability and Management of DoD-Owned Equipment and Other Accountable Property” (2 November 2006), states that a minimum 98 percent physical inventory accuracy rate shall be achieved and maintained.

Audit Results

Recordkeeping for equipment assigned to II Marine Expeditionary Force units needs improvement. Equipment accountability is important because it ensures accurate readiness reporting, successfully justifies resource requests to Congress, and continues the Marine Corps’ ability to provide well-equipped forces to answer the nation’s call.

We judgmentally selected 13 Table of Materiel Control Numbers assigned to 24 available II Marine Expeditionary Force units and compared on-hand counts to inventory records (i.e. Consolidated Memorandum Receipts, Mechanized Allowance Listing, and Supported Activities Supply System). We determined that the units did not always meet the Marine Corps Inspector General’s goal of 100-percent inventory accuracy for Marine Corps Automated Readiness Evaluation System reportable and Stores Account Code 3 items. Additionally, unit results did not meet the Department of Defense requirement of a minimum 98-percent physical inventory accuracy for all assets. Instead, we found accurate records were not maintained for 43 out of 711 assets we reviewed, resulting in an overall inventory accuracy rate of about 94 percent. Inaccurate records impede the commanding officer’s ability to be combat ready and guard against critical shortages and unauthorized excesses.

This situation occurred because unit personnel were not held accountable for data inaccuracies and did not update accountable records in a timely manner. It also occurred because Marine Corps guidance did not address the timeliness of Mechanized Allowance Listing or Consolidated Memorandum Receipt updates, and there was no oversight of unit inventory reviews.

Accuracy of Unit Records

To determine if units were accurately accounting for equipment they had been assigned, we obtained a listing of 135 critical Table of Materiel Control Numbers from Installations and Logistics. Using this listing and a list of available units received from II Marine Expeditionary Force, we judgmentally selected 13 Table of Materiel Control Numbers and reviewed the equipment record accuracy for those Table of Materiel Control Numbers at 24 II Marine Expeditionary Force units. We did this by comparing on-hand counts to inventory records (i.e. Consolidated Memorandum Receipts, Mechanized Allowance Listing, and Supported Activities Supply System). Exhibit B provides more details on the scope and methodology used for our sample selection. The Table of Materiel Control Numbers reviewed, along with nomenclature and asset values, are shown in Table 1. The 24 II Marine Expeditionary Force units reviewed are listed in Table 2.

Table 1.

13 Table of Materiel Control Numbers Reviewed		
Table of Materiel Control Number	NOMENCLATURE	ASSET VALUE
A01497	Antenna, Communication	\$495,000
A02387	Maintenance Kit, Electric	\$145,000
A02397	Maintenance Kit, Electric	\$45,000
A02407	Maintenance Kit, Electric	\$90,000
A02557	Combat Operations Center	\$1,372,700
A08067	Defense Satellite	\$1,500,000
A25467	Computer, Semi R LT	\$3,500
A71007	Camera System, Digital	\$14,531
A80887	Encryption-Decryption	\$7,950
A80917	Encryption-Decryption	\$9,900
B04767	Mine Detector	\$19,175
D00277	Cougar Cat II	\$680,000
E07207	Hook and Line Kit	\$17,815

Table 2.

Listing Of 24 Units Reviewed	
2 nd Assault Amphibian Battalion (2D Assault Amph)	2 nd Supply Battalion (2D Supply)
2 nd Battalion, 8 th Marines (2 nd BN, 8 th MAR)	2 nd Tank Battalion (2D Tank)
2 nd Battalion, 10 th Marines (2 nd BN, 10 th MAR)	5 th Battalion, 10 th Marines (5 th BN, 10 th MAR)
2 nd Combat Engineer Battalion (2D CEB)	Combat Logistics Battalion 8 (CLB 8)
2 nd Dental Battalion (2D Dental)	Combat Logistics Battalion 22 (CLB 22)
2 nd Maintenance Battalion (2 nd Maint)	Combat Logistics Company 21 (CLC 21)
2 nd Medical Battalion (2D Medical)	Combat Logistics Regiment 25 (CLR 25)
2 nd Radio Battalion (2D Radio)	Combat Logistics Regiment 27 (CLR 27)
8 th Communications Battalion (8 th COMM BN)	Marine Aircraft Group 14 (MAG 14)
Headquarters and Support Battalion (HQBN)	Marine Aircraft Group 29 (MAG 29)
II Marine Expeditionary Force Headquarters Group (II MHG)	Marine Tactical Air Command Squadron 28 (MTACS 28)
Second Low Altitude Air Defense Battalion (D2 LAAD)	Marine Wing Communication Squadron 28 (MWCS 28)

Upon arrival at each unit, we obtained a copy of the unit's Consolidated Memorandum Receipt to determine locations and serial numbers of each Table of Materiel Control Number. A Consolidated Memorandum Receipt is a list of property assigned to a responsible officer. We also obtained a copy of the unit's Mechanized Allowance Listing to determine the quantity of each Table of Materiel Control Number assigned to the unit and to reconcile any differences that occurred between our 2 April 2010 Supported Activities Supply System records and the date of our site visit. The Mechanized Allowance Listing is a list of all the organization equipment assigned to a unit. The primary purpose of the Mechanized Allowance Listing is to control "table of equipment" and special allowance items. It provides current information, such as the National Stock Number, unit price, overages, shortages, and other information for allowance type items. We then conducted a physical inventory count of the 13 judgmentally selected Table of Materiel Control Numbers assigned to that unit. If personnel presented documentation that supported receipts or issues not yet posted, we accounted for those transactions during our counts.

After conducting on-hand counts, we reconciled our counts to the unit's Consolidated Memorandum Receipt, Mechanized Allowance Listing, and Supported Activities Supply System records. DoD Instruction 5000.64, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property" (2 November 2006), states that a minimum 98-percent physical inventory accuracy rate shall be achieved and maintained. According to Marine Corps Inspector General personnel, the Marine Corps' goal for inventory accuracy is 100-percent accuracy for items reportable in the Marine Corps Automated Readiness Evaluation System, 100 percent for Stores Account Code 3 items, and 97 percent for Stores Account Code 1 items. The Marine Corps Automated Readiness Evaluation System reflects the current status of selected ground equipment

authorized and possessed by reporting commands/units. The Marine Corps Automated Readiness Evaluation System Table of Materiel Control Numbers are reportable equipment identified annually in a Marine Corps Bulletin in the 3000 series, specifically the “Table of Marine Corps Ground Equipment Resource Reporting Equipment.” The Stores Account Code is the code used to differentiate among appropriation-financed principle items, appropriation-financed secondary items, and stock fund items. The Stores Account Code 3 items are appropriation stores account principle end items of major importance and major components. These items require detailed analysis and examination. They are financed through appropriations other than the Department of the Navy Stock Fund (Marine Corps Division) or Operations and Maintenance, Marine Corps. They are not the customer’s budget responsibility. As detailed in Table 3, we identified 41 pieces of equipment at 8 units (out of the 24 reviewed) that had overages, shortages, or both with an absolute dollar value error totaling \$896,050 (This does not include the two administrative errors discussed further later). All of the items we reviewed were Stores Account Code 3 items.

Table 3.

Summary of Accountable Record Analysis for II Marine Expeditionary Force Units								
	UNIT	TABLE OF MATERI EL CONTR OL NUMBE R	OH QTY	MECH ANIZE D ALLO WANC E LISTIN G QTY	ASSET VALUE	DISCREPANCY	DISCREPANCY TOTAL (QTY)	DISCREPANCY TOTAL (DOLLARS)
1	2D Assault Amph	A25467	6	6	\$3,500	1 Over, 1 Short	2	\$7,000
2	2D CEB	A25467	10	12	\$3,500	2 Short	4	\$7,000
	2D CEB	B04767	52	52	\$19,175	4 Short	8	\$76,700
3	2D Tank BN	A25467	10	11	\$3,500	1 Short	9	\$3,500
4	2 ND BN, 10 TH MAR	A25467	18	18	\$3,500	1 Over, 1 Short	11	\$7,000
5	CLR 25	A25467	10	11	\$3,500	1 Short	12	\$3,500
6	CLR 27	A25467	51	52	\$3,500	1 Short	13	\$3,500
7	HQBN	A25467	55	55	\$3,500	1 Over, 1 Short	15	\$7,000
	HQBN	D00277	7	8	\$680,000	1 Short	16	\$680,000
8	II MHG	A25467	68	72	\$3,500	11 Over, 11 Short	38	\$77,000
	II MHG	A80887	17	14	\$7,950	3 Short	41	\$23,850
						Totals	41 Overages and Shortages	\$896,050

For our analysis, we defined an overage or shortage as follows:

Overage-actual amount of on-hand equipment that exceeds the amount recorded on the unit’s Mechanized Allowance Listing. If unit personnel presented documentation that supported receipts or issues not yet posted, we accounted for

those transactions during our counts at the units. However, if the documentation provided was incomplete, we did not consider the unit's records to be accurate.

Shortage-actual amount of on-hand equipment that was less than the amount recorded on the unit's Mechanized Allowance Listing. If unit personnel presented documentation that supported receipts or issues not yet posted, we accounted for those transactions during our counts at the units. However, if the documentation provided was incomplete, we did not consider the unit's records to be accurate.

In addition to the discrepancies above, we also identified two administrative errors and six pending transactions.

Administrative Errors. For purposes of our review, we defined an administrative error as an instance where overages or shortages were not found, but errors in the unit's accountable records were detected. For example, at one unit reviewed (2nd Battalion, 8th Marines), we noted that 19 of the 50 laptop computers on hand (Table of Materiel Control Number A2546) were labeled with the incorrect Table of Materiel Control Number. At another unit (II Marine Expeditionary Force Headquarters Group), we identified a piece of equipment (Table of Materiel Control Number A8091) that had been transferred out of the unit on 19 January 2010; however, it was still listed on the unit's Mechanized Allowance Listing at the time of our site visit on 18 May 2010. According to Marine Corps Order 4400.150E, timely adjustment of the balance record is necessary so that action to dispose of excesses and replenish deficiencies can occur.

Pending Transactions. For purposes of our review, we defined pending transactions as transactions that had not yet been completely processed. Specifically, they were equipment overages or shortages identified during the Commanding General directed wall-to-wall inventory or equipment transfers that occurred after the wall-to-wall inventory for which the official records (Mechanized Allowance Listing) had not been updated. A list of the pending transactions by unit and Table of Materiel Control Number is shown in Table 4.

Table 4.

Summary of Pending Transactions for II Marine Expeditionary Force Units					
UNIT	TABLE OF MATERIEL CONTROL NUMBER	OH QTY	MECHANIZED ALLOWANCE LISTING QTY	ASSET VALUE	DISCREPANCY
8 TH COMM BN	A80887	39	41	\$7,950	Pending Transaction
CLR 27	A02387	0	1	\$145,000	Pending Transaction
CLR 27	A80887	12	7	\$7,950	Pending Transaction
CLR 27	A80917	1	2	\$9,900	Pending Transaction
CLR 27	D00277	4	6	\$680,000	Pending Transaction
II MHG	A25467	68	72	\$3,500	Pending Transaction

According to Marine Corps Order 4400.150E, “Consumer Level Supply Policy Manual,” the accounting record must be brought into alignment with the actual on-hand quantity upon conclusion of required inventories and at any other time imbalances are discovered. Timely processing of pending transactions to update unit Mechanized Allowance Listings and Consolidated Memorandum Receipts will facilitate disposal and redistribution efforts for excess equipment. Supply personnel should process these pending transactions in a timely manner to ensure on-hand quantities are not misstated in unit accountable records.

Why the Discrepancies Occurred

To determine why the accountable records did not always agree with our physical counts, we interviewed unit, Major Subordinate Command, and II Marine Expeditionary Force level personnel and reviewed pertinent guidance related to Marine Corps supply management. Based on our review, we concluded that this occurred because unit personnel were not always held accountable for data inaccuracies and did not update accountable records in a timely manner. Discrepancies also occurred because Marine Corps guidance did not address the timeliness of Mechanized Allowance Listing or Consolidated Memorandum Receipt updates, and there was no oversight of unit inventory reviews.

Accountability and Oversight for Data Accuracy. Every unit, according to Marine Corps guidance, is required to perform periodic physical inventories throughout the year. These reviews include quarterly Consolidated Memorandum Receipt reconciliations and annual physical inventories. They also include periodic inventories that occur as a result of rotations to key unit level personnel (commanding officers, supply officers, and responsible officers). Having recently conducted the Commanding General-directed, wall-to-wall inventory, as well as the other types of physical inventories discussed above, we would have expected to see very few errors. However, as earlier stated, this was not the case. Instead, we found accurate records were not maintained for 43 (or 6 percent) of

711 assets assigned to the 24 units we reviewed. These 43 errors occurred at 9 (or 38 percent) of the 24 units visited.

To determine what occurs with the results of the various physical inventories conducted by each of the units, we contacted personnel from each of the Major Subordinate Commands representing the 24 units reviewed. We found that they are not obtaining, tracking, trending, or even reviewing the results of the reviews performed by their units. We also contacted II Marine Expeditionary Force personnel and found that they also do not obtain the results of the periodic inventory reviews performed by their units (except for the most recent Commanding General-directed physical inventory). We believe that this lack of oversight perpetuates equipment inventory inaccuracies. For example, by not obtaining the results of these reviews, the chain of command above the unit level (Major Subordinate Command and Marine Expeditionary Force) cannot track the results of these reviews over multiple inventories. They also are unable to perform trend analysis of those results to identify units who do a good job with their equipment accountability or units that may need help. We believe that proper accountability procedures at the unit level need to be addressed from higher level command to encourage and hold personnel accountable for accurate results.

Timely Updates and Guidance. Unit supply personnel did not always update accountable records in a timely manner. According to Marine Corps Order 4400.150E, “Consumer Level Supply Policy Manual,” the accounting record must be brought into alignment with the actual on-hand quantity upon conclusion of required inventories and at any other time imbalances are discovered. It also states that timely processing of pending transactions to update unit Mechanized Allowance Listings will facilitate disposal and redistribution efforts for excess equipment. However, the guidance does not specify a timeframe for making these adjustments. As previously noted, we identified six potential “pending” transactions (differences between unit records and on-hand inventory identified by the unit) for which the official records (Mechanized Allowance Listing) had not been updated. Transactions that occurred as early as 2 April 2010 had not been processed by the time of our site visit (17-25 May 2010). We also noted that some previous Mechanized Allowance Listing updates were not processed in a timely manner. For example, one unit we reviewed transferred an asset to another unit in January 2010, yet the Mechanized Allowance Listing had still not been updated at the time of our site visit in May. At another unit we reviewed, we identified six assets that were physically transferred to another unit in June 2009. However, as of 2 April 2010, the assets were still being shown as on-hand at the unit. Marine Corps guidance does not address the timeliness of updating and reconciling the Consolidated Memorandum Receipt.

Impact of Inaccurate Recordkeeping

As earlier stated, recordkeeping for equipment assigned to II Marine Expeditionary Force units needs improvement. Despite a recent wall-to wall inventory, we found accurate records were not maintained for 43 (or six percent) of 711 assets assigned to the 24 units we reviewed. These 43 errors occurred at 9 (or 38 percent) of the 24 units visited. As a result of these discrepancies, we determined that the II Marine Expeditionary Force unit records were inaccurate by an absolute value of \$896,050. Unit record inaccuracies for on-hand balances could potentially affect unit readiness and redistribution efforts. Additionally, inaccurate records impede the commanding officer's ability to be combat ready and guard against critical shortages and unauthorized excesses.

Due to ongoing war efforts, the visibility of unit level readiness from higher level chain of command is very important. However, if a unit has inaccurate equipment records, then its readiness state is harder to ascertain.

Additional Observations. In February 2010, the Commanding General, II Marine Expeditionary Force directed his units to conduct a 60-day stand-down to perform a wall-to-wall inventory and reconciliation with equipment records. This review was to be completed by 30 April 2010. Personnel at II Marine Expeditionary Force stated that the results of our audit would be more helpful if we found discrepancies in unit equipment records after the wall-to-wall was conducted because it would validate the efficiency or inefficiency in the review process. Therefore, II Marine Expeditionary Force personnel requested that we conduct our site visit after 30 April 2010.

When performing our site visits to II Marine Expeditionary Force units, we encountered some situations that we believe merit reporting considering that a wall-to-wall inventory had recently been completed. Those situations were as follows:

- At three units visited, the supply personnel with whom we met did not know where equipment we were reviewing was located or what it looked like;
- At one unit visited, the supply officer for the unit was unaware of personnel changes affecting responsible officers (the custody holder of accountable supplies who is formally charged with the duty to care for and control all supplies within his or her custody);
- At two units visited, the supply personnel we met made no attempt to research the potential reasons for the differences with our on-hand counts and the units' records; and
- At two units visited, required documentation to support differences between records and on-hand counts were not available at the time of our review. Having

recently conducted a wall-to-wall inventory prior to our visit, units should have had transfer or custody paperwork readily available.

Recommendations and Corrective Actions

We recommend that the Commandant of the Marine Corps:

Recommendation 1. Require supply officers to conduct periodic spot inventory reviews of on-hand equipment maintained by their responsible officers to verify the accuracy of unit records.

Management Response to Recommendation 1. Concur. Marine Corps Order P4400.150E (paragraph 2009), “User Manual 4400-124” (pages 3, 6, and 18), and the Commanding General of II Marine Expeditionary Force direct unit Supply Officers to conduct annual “wall-to-wall” inventories to coincide with one of the quarterly Consolidated Memorandum Receipt reconciliations. Such inventories, however, do not require the unit Supply Officer to physically inventory equipment in the custody of Responsible Officers, as this is the main responsibility of those Responsible Officers. This headquarters does agree that establishing, in the current revision of Marine Corps Order 4400.150E, a requirement for unit Supply Officers to conduct physical spot-checks of a portion of equipment in the custody of Responsible Officers will alleviate or resolve many of the recordkeeping issues identified in this report. The estimated completion date is 31 March 2011.

Naval Audit Service comments on response to Recommendation 1. Planned actions by management meet the intent of the recommendation. This recommendation is considered open pending completion of agreed upon actions.

Recommendation 2. Update guidance to establish time requirements for updating the Mechanized Allowance Listings and Consolidated Memorandum Receipts.

Management Response to Recommendation 2. Concur. Marine Corps Order 4400.150E “Consumer Level Supply Policy Manual” does provide for the following timelines: (1) 15 calendar days for a Responsible Officer to report to the unit supply officer routine changes to his Consolidated Memorandum on-hand inventory; and (2) 5 calendar days for a Responsible Officer to report to the commanding officer (as a request for investigation) the discovery of imbalances between his Consolidated Memorandum Receipt and what is physically on hand. Yet it is assumed that due to physical acceptance and/or transfer of equipment, inventory adjustments to property records or requests for investigative action will be initiated on an “as occurring or daily basis.” This headquarters will clarify existing policy and establish time definite standards for the adjustment of property

records in our revision of Marine Corps Order 4400.15OE. The estimated completion date is 31 March 2011.

Naval Audit Service comments on response to Recommendation 2.

Planned actions by management meet the intent of the recommendation. This recommendation is considered open pending completion of agreed upon actions.

Recommendation 3. Require the Commanding General, II Marine Expeditionary Force (or their Major Subordinate Commands) to obtain, track, and trend the results of periodic inventories performed by the units and use this data to monitor and improve unit equipment accountability.

Management Response to Recommendation 3. Concur. The Commanding General of II Marine Expeditionary Force requires his Staff and Major Subordinate Commanders to obtain, track, and trend periodic wall-to-wall inventories. The results of these directed inventories are monitored, and applicable guidance is disseminated to improve equipment accountability. Request that this action be considered completed. To support our request for NAVAUDSVC closure of recommendation 3, the Marine Corps will provide, in separate correspondence during March 2011, documentation of periodic inventory completion, tracking, and trend analyses for inventories performed by II Marine Expeditionary Force units and how this data is used to monitor and improve unit equipment accountability.

Naval Audit Service comments on response to Recommendation 3.

Planned actions by management meet the intent of the recommendation. During followup conversations with II Marine Expeditionary Force Supply personnel in February 2011, we were informed that the actions discussed above were not formalized until July, 2010, which was after our site visit. This recommendation is considered open pending evidence of routine message traffic to units related to tracking and trending of physical inventory, as discussed in Management comments. The estimated completion date is 31 March 2011.

Section B:**Status of Recommendations**

Recommendations							
Finding ¹	Rec. No.	Page No.	Subject	Status ²	Action Command	Target or Actual Completion Date	Interim Target Completion Date ³
1	1	14	Require supply officers to conduct periodic spot inventory reviews of on-hand equipment maintained by their responsible officers to verify the accuracy of unit records.	O	Commandant of the Marine Corps	3/31/2011	
1	2	14	Update guidance to establish time requirements for updating the Mechanized Allowance Listings and Consolidated Memorandum Receipts.	O	Commandant of the Marine Corps	3/31/2011	
1	3	15	Require the Commanding General, II Marine Expeditionary Force (or their Major Subordinate Commands) to obtain, track, and trend the results of periodic inventories performed by the units and use this data to monitor and improve unit equipment accountability.	O	Commandant of the Marine Corps	3/31/2011	

¹ / + = Indicates repeat finding.

² / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress.

³ If applicable.

Exhibit A:

Background

On 16 May 2008, the Commandant of the Marine Corps issued White Letter 03-08, which addressed equipment accountability. He said that based upon recent reports by the Inspector General, equipment accountability must be improved to ensure the Marine Corps can effectively meet ongoing and future mission requirements. His letter also noted that accurate equipment accountability ensures accurate readiness reporting, successful justification of resource requests to Congress, and continued ability to provide well-equipped forces. Additionally, his letter stated that equipment accountability is a warfighting and readiness issue and must be a priority.

The Naval Audit Service has identified previous problems with recordkeeping for Marine Corps equipment. As reported in Naval Audit Service Report N2010-0028 “Marine Corps Equipment Visibility,” dated 20 May 2010, we pulled a judgmental sample of inventory from six Marine Corps units and compared their Supported Activities Supply System records to on-hand counts. We found accuracy rates for those records ranged from 54 percent to 80 percent. According to DoD Instruction 5000.64, “Accountability and Management of DoD-Owned Equipment and Other Accountable Property,” a minimum 98-percent physical inventory accuracy rate shall be achieved and maintained.

To complete this audit, we were provided with 135 “mission critical” Table of Authorized Material Control Numbers by the Deputy Commandant of the Marine Corps, Installations and Logistics. A Table of Materiel Control Number is used to identify a specific item within the Marine Corps inventory. We used two legacy logistics systems: Total Force Structure Management System and Supported Activities Supply System to conduct our Table of Materiel Control Number analysis and on-hand counts at the units. A discussion of the systems reviewed follows.

Total Force Structure Management System – The Total Force Structure Management System is an enterprise system that combines manpower and equipment data for the purpose of managing the total force. The Marine Corps uses the Total Force Structure Management System to make decisions pertaining to active, reserve, and civilian billet requirements, as well as equipment allowances. It allows for logical, accurate, and efficient management of the Marine Corps Total Force Structure Process. Marine Corps Combat Development Command personnel are responsible for this system.

Supported Activities Supply System – The Supported Activities Supply System functions as a centralized record keeper, stock manager, and forecaster. It also serves as a central bank or information point for the using units without negating command responsibility. The Supported Activities Supply System is oriented toward removing

supply accounting and recordkeeping functions from the using unit and provides management reports to aid the unit commander in maintaining surveillance over the materiel readiness of his command. Computer produced documentation is provided to facilitate the receiving, issuing, and accounting for materiel. Marine Corps Logistics Command personnel are responsible for this system.

Exhibit B:

Scope and Methodology

We conducted the audit of Marine Corps equipment accountability from 23 November 2009 to 30 November 2010.

Table of Materiel Control Number Selection

To conduct our review, we were provided with 135 “mission critical” Table of Authorized Material Control Numbers from the Deputy Commandant of the Marine Corps, Installations and Logistics. Originally, we were provided with a list of 93 Table of Materiel Control Numbers on 8 December 2009. However, on 20 January 2010, Installations and Logistics provided a revised list of 111 Table of Materiel Control Numbers. We compared the two lists and identified 24 Table of Materiel Control Numbers that were deleted from the original list and 42 Table of Materiel Control Numbers that were added. To broaden our scope, we included the 24 previously deleted Table of Materiel Control Numbers. This resulted in a total of 135 Table of Materiel Control Numbers. Of these, 104 are reported in the Marine Corps Automated Readiness Evaluation System. Additionally, 64 of the 104 are classified as “mission essential equipment.”

For each of the 135 Table of Materiel Control Numbers included in our review, we obtained the Approved Acquisition Objective quantity from the Total Force Structure Management System and the on-hand and backorder amounts as contained in the Supported Activity Supply System from Marine Corps Logistics Command. Using this data, we combined the on-hand and backorder quantities for each Table of Materiel Control Number, and compared this total to the Approved Acquisition Objective listed in the Total Force Structure Management System. Based upon this comparison, we identified 31 Table of Materiel Control Numbers where the Approved Acquisition Objective was lower than the combined on-hand and backorder quantities.

For each of the 31 Table of Materiel Control Numbers, we interviewed Marine Corps Combat Development Command personnel to determine any planned Approved Acquisition Objective changes. We also interviewed Marine Corps Systems Command personnel to determine purchasing procedures and status information, as well as any relevant information concerning the 31 Table of Materiel Control Numbers. Additionally, we obtained from Marine Corps Logistics Command the validated backorder amount for each Table of Materiel Control Number. We used this validated backorder quantity, instead of the backorder quantity listed in the Supported Activities Supply System, because we considered it more reliable.

Based upon our discussions with Marine Corps Systems Command personnel, we determined that 10 of the 31 Table of Materiel Control Numbers will not be purchased in the future (Reasons for not purchasing these items include that it was a one-time buy, the item was phased out, or Approved Acquisition Objective was archived). Also, based upon our discussions with Marine Corps Combat Development Command personnel, we determined that 5 of the 31 Table of Materiel Control Numbers had Approved Acquisition Objective increases in process that would raise the Approved Acquisition Objective above the on-hand plus backorder amount. Additionally, 3 of the 31 Table of Materiel Control Numbers had a lower validated backorder quantity than listed in the Supported Activities Supply System. As a result, we decided to proceed into the II Marine Expeditionary Force site review with the 13 Table of Materiel Control Numbers ($31 - (10+5+3) = 13$) where on-hand plus backorder amounts potentially still exceeded the Approved Acquisition Objective.

We reviewed Marine Corps Order 5311.1D, “Total Force Structure Process,” dated 26 February 2009, which states that the Total Force Structure Management System is the single, authoritative source that documents all force structure requirements and authorizations, including: unit descriptive and geographic hierarchy data; billet descriptive and unit relationship data; Principle End Item attributes, including Approved Acquisition Objectives; and Unit Approved Acquisition Objectives (Unit Table of Equipment Requirements); unfunded requirement quantities; and planned procurement quantities.

We reviewed Marine Corps Bulletin 3000, “Marine Corps Automated Readiness Evaluation System Equipment,” dated 2 February 2010, which contains Table of Materiel Control Numbers within the Marine Corps Automated Readiness Evaluation System. It further lists Table of Materiel Control Numbers that are classified as “mission essential equipment.”

We reviewed Marine Corps Order 4000.57, “Marine Corps Total Life-Cycle Management,” dated 16 September 2005, which states that Marine Corps Systems Command program managers are the single point of accountability for timely and effective acquisition and sustainment of weapons systems, equipment, and information technology, including the National Security System, throughout the life cycle.

Accuracy of Unit Records

To conduct our site reviews, we requested a list of available units from II Marine Expeditionary Force personnel. We defined a unit as being available for review if it was not deployed, if it was not about to deploy, or if it was not just returning from deployment. Using these criteria, II Marine Expeditionary Force provided us a list of 28 available units. We compared our list of Table of Materiel Control Numbers to the list of units and found that 24 of those units possessed at least one of our Table of Materiel

Control Numbers. Therefore, due to the number of Table of Materiel Control Numbers under review, we decided to review 24 of the available units.

Upon our arrival at each unit, we obtained a copy of the unit's Consolidated Memorandum Receipts and Mechanized Allowance List. The Consolidated Memorandum Receipt was obtained to determine the locations and serial numbers of each Table of Materiel Control Number, and the Mechanized Allowance Listing was obtained to determine the quantity on-hand according to the unit's records. The Consolidated Memorandum Receipt is an Asset Tracking Logistics and Supply System produced listing of the property assigned to a responsible officer. The Consolidated Memorandum Receipt lists authorized allowance items in the hands of the responsible units. The Consolidated Memorandum Receipt resembles the printout of the Mechanized Allowance Listing, except it includes the Marine Corps' serial numbers for all on-hand allowance type items. The Mechanized Allowance Listing is a list of all the organization equipment assigned to a unit. Both the Asset Tracking Logistics and Supply System and the Supported Activities Supply System have versions of this file, but the Supported Activities Supply System version is the authoritative file. The Mechanized Allowance Listing is a tool used to control the Table of Equipment and special allowance. It also provides current information on the National Stock Number, unit price, overages, shortages, and allowance type items. We then conducted a physical inventory count of each Table of Materiel Control Number (from our list of Table of Materiel Control Numbers) assigned to that unit.

We then summarized our on-hand counts and the on-hand quantities shown in the units' Mechanized Allowance Listing (provided to us by the unit's supply personnel) to determine potential overages and shortages of our sample Table of Materiel Control Numbers. When differences were observed, we discussed those differences with supply personnel to determine if there were any pending transactions that may explain our differences.

We reviewed Marine Corps Order 5530.14A, "Marine Corps Physical Security Program Manual," dated 5 June 2009. The mission of this criterion was to establish the Marine Corps Physical Security Program and provide policy to support commanders' efforts to maintain a robust physical security program. This criterion also covers the scope of assets that require a Missing, Lost, Stolen, or Recovered report.

We reviewed DoD Instruction 5000.64, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," dated 2 November 2006, which states a minimum 98 percent physical inventory accuracy rate shall be achieved and maintained.

We reviewed Marine Corps Order P4400.150E, "Consumer-Level Supply Policy Manual," dated 21 June 1999, which provides policy for consumer-level supply activities.

We reviewed Marine Corps Users Manual 4400-124, which states that the Supported Activities Supply System functions as a centralized record keeper, stock manager, forecaster, and a central data bank or information point for the using units without negating command responsibility.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Exhibit C:**Activities Visited and/or Contacted**

Activity	Location
Marine Corps Headquarters Installations and Logistics	Arlington, VA
Marine Corps Forces Command	Norfolk, VA
Marine Corps Combat Development Command	Quantico, VA
Marine Corps Systems Command	Quantico, VA
Marine Corps Logistics Command	Albany, GA
Marine Corps Base Camp Lejeune	Camp Lejeune, NC
Marine Corps Air Station Cherry Point	Cherry Point, NC
Marine Corps Air Station New River	Jacksonville, NC

Appendix:

Management Response from the Commandant of the Marine Corps



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:
7510
RFR-80
AUG 1 2011

From: Commandant of the Marine Corps
To: Assistant Auditor General for Installations and
Environment Audits, Naval Audit Service

Subj: COMMANDANT OF THE MARINE CORPS (CMC) OFFICIAL RESPONSE
TO NAVAL AUDIT SERVICE (NAVAUDSVC) DRAFT REPORT
N2010-NIA000-0038.000, "MARINE CORPS EQUIPMENT
ACCOUNTABILITY," DATED 10 JUNE 2011

Ref: (a) NAVAUDSVC memo 7510 N2010-NIA000-0038.000 10 Jun 11

Encl: (1) CMC Official Responses

1. Official responses required by the reference are provided at enclosure (1).
2. The Marine Corps appreciates the opportunity to respond to the report.
3. If you have any questions about the responses, please contact [REDACTED] Headquarters, U. S. Marine Corps Senior Audit Liaison, email [REDACTED] or phone [REDACTED].

[REDACTED]
[REDACTED]
Deputy Commandant
for Programs and Resources

Copy to:
NAVINGEN (N4)
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DC I&L

FOIA (b)(6)

FOIA (b)(6)

7510
LPC-2

LOGISTICS PLANS, POLICIES, AND STRATEGIC MOBILITY DIVISION COMMENTS on MCATS Task
PR-2010-12-2174.3

Subj: NAVAL AUDIT SERVICE (NAS) DRAFT REPORT, N2010-NIA000-0038.001, MARINE
CORPS EQUIPMENT ACCOUNTABILITY AT II MARINE EXPEDITIONARY FORCE

Ref: (a) MCO 7510.3E

1. Pursuant with the reference, the following response to the subject report is provided:

Recommendation 1: Require supply officers to conduct periodic spot inventory reviews of on-hand equipment maintained by their responsible officers to verify the accuracy of unit records.

CMC response to Recommendation 1: Concur. Marine Corps Order P4400.150E (paragraph 2009), User Manual 4400-124 (page 3-6-18), and the Commanding General of II Marine Expeditionary Force direct unit Supply Officers to conduct annual "wall-to-wall" inventories to coincide with one of the quarterly Consolidated Memorandum Receipt (CMR) reconciliations. Such inventories, however, do not require the unit Supply Officer to physically inventory equipment in the custody of Responsible Officers (ROs), as this is the main responsibility of those ROs. This headquarters does agree that establishing, in the current revision of MCO 4400.150E, a requirement for unit Supply Officers to conduct physical spot-checks of a portion of equipment in the custody of ROs will alleviate or resolve many of the record keeping issues identified in this report. The estimated completion date is 31 March 2011.

Recommendation 2: Update guidance to establish time requirements for updating the Mechanized Allowance Listings and Consolidated Memorandum Receipts.

CMC response to Recommendation 2: Concur; action is in progress. MCO 4400.150E *Consumer Level Supply Policy Manual* does provide for the following timelines: 1) 15 calendar days for an RO to report to the unit supply officer routine changes to his CMR on-hand inventory; and 2) 5 calendar days for an RO to report to the commanding officer (as a request for investigation) the discovery of imbalances between his CMR and what is physically on hand. Yet it is assumed that due to physical acceptance and/or transfer of equipment, inventory adjustments to property records or requests for investigative action will be initiated on an "as occurring or daily basis." This headquarters will clarify existing policy and establish time definite standards for the adjustment of property records in our revision of MCO 4400.150E. The estimated completion date is 31 March 2011.

Recommendation 3: Require the Commanding General, II Marine Expeditionary Force (or their Major Subordinate Commands) to obtain, track, and trend the results of periodic inventories performed by the units and use this data to monitor and improve unit equipment accountability.

CMC response to Recommendation 3: Concur. The Commanding General of II Marine Expeditionary Force requires his Staff and Major Subordinate Commanders to obtain, track, and trend periodic wall-to-wall inventories. The results of these directed inventories are monitored, and applicable guidance is disseminated to improve equipment accountability. Request that this action be considered completed.

Encl (1)

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APPENDIX: MANAGEMENT RESPONSE FROM THE COMMANDANT OF THE MARINE CORPS

7510
LPC
JUL 21 2011

LOGISTICS PLANS, POLICIES AND STRATEGIC MOBILITY DIVISION COMMENTS on
P&R MCATS 2011-6-2501.7

Subj: NAVAL AUDIT SERVICE DRAFT REPORT N2010-NIA000-0038.00 - MARINE
CORPS EQUIPMENT ACCOUNTABILITY

Encl: (1) USMC responses to NAS recommendations

1. We have reviewed the draft audit report and submit the enclosed
responses to recommendations 1 through 9.

2. The point of contact in this division is [REDACTED] LPC-2, at
[REDACTED] or [REDACTED]

[REDACTED]

By direction

FOIA (b)(6)

FOIA (b)(6)

1

Encl (1)

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